RBI Press Conference: Attempt to Calm the Ruffled Markets

Brickwork Ratings, Mumbai, 16 March 2020: Today’s press conference held by the RBI Governor to announce matters pertaining to the restructuring of Yes Bank and measures to counter the COVID-19 fallout is timely. It was mainly intended to assure the depositors of Yes Bank that their deposits are safe, the restructuring of the bank is well under way and that the RBI will do whatever it takes to ensure this happens. The announcement of an additional rupee-dollar swap is to stabilise the foreign exchange market and the additional Long-Term Repo Operations (LTRO) of Rs 1 lakh crore is to ensure adequate liquidity in domestic markets. The announcements are also intended to calm the ruffled foreign exchange and financial markets.

As promised, the RBI has quickly put a restructuring plan for the revival of Yes Bank in operation with the help of the State Bank of India (SBI) and important private sector banks, this should substantially shore up depositor’s confidence. The emphasis in the press conference that this is a unique Public Private Partnership (PPP) move, many well-known investors are in the game and as in the past, no depositor in a scheduled commercial bank will lose go a long way in assuring them. The lifting of the moratorium from 18 March onwards and repeated assurance that the RBI will not let the bank fail are both reassuring. To what extent the depositors will be assured will be seen on 19 March, when the Bank will be open for business after lifting the moratorium and hopefully, the assurance given by the Governor will calm their nerves.

There was much speculation about the RBI cutting the repo rate after almost 40 countries, including the US and England cut their policy rates. However, in the new policy regime of the Monetary Policy Committee determining the rate, decision on this will have to wait for the meeting of the Committee. However, there are enough indications that the policy rate will be cut, although the quantum of rate cut is uncertain. Meanwhile, an announcement about an additional Foreign Exchange Swap scheme of Rs 25,000 crore should assure the volatile exchange rate market and help to stabilise the rate at a reasonable level. Similarly, the announcement of additional LTRO of Rs 1 lakh crore should help shore up the liquidity and help in further transmission of the past rate cuts. In effect, this is an additional indirect instrument to monetise the deficits (such as open market operations) when the public sector borrowing virtually pre-empts all household sector financial savings.
The most important objective of the press conference seems to be to assure the markets that the RBI has a number of weapons in its armoury and will not hesitate to deploy them with appropriate force at the right time in a calibrated manner. This is reassuring although, much of the recent volatility is a global phenomenon and it is not clear to what extent the move will help stabilise the markets. More importantly, the action now is on the meeting of the Monetary Policy Committee, and we will have to wait to see the extent of the reduction in policy rate, any reduction in CRR and/or any other policy initiatives.

Contacts:

Dr M Govinda Rao
Chief Economic Adviser
+9180 40409940
govindrao.m@brickworkratings.com

Anita Shetty
Research Editor
+91 22 67456663
anitashetty@brickworkratings.com

Investors and Media Contact
+9184339 94686
liena.t@brickworkratings.com
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